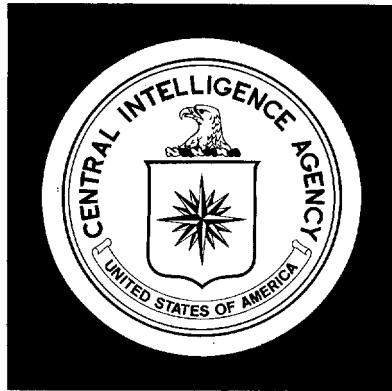


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CHILE: President Allende's new cabinet reflects the political composition of his Popular Unity coalition. Seven new ministers were appointed and eight were retained from the previous cabinet.

In a speech prior to the swearing in, Allende was hardly conciliatory; he did not meet the concerns of the opposition or the armed forces. He called on his new ministers to redouble their efforts to carry out the Popular Unity program, and in particular to implement a plan to reverse the political and economic deterioration of the country. Despite the President's apparent reasonableness and determination, the new plan emphasizes a further extension of state enterprises as well as state distribution of foodstuffs and other essential consumer goods.

Perhaps in an effort to mollify the military, who made certain demands on him recently, Allende did not reappoint any previously impeached ministers, as he had earlier pledged to do.

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Exchange Rate Changes Relative to the Dollar Since
the European Joint Float was Introduced on 19 March

(Figures in Percent)

	<u>7 May*</u>	<u>1 June</u>	<u>28 June</u>	<u>5 July</u>
Mark	-0.9	+5.6	+14.3	+22.0
Guilder	-2.1	+3.9	+10.3	+13.2
French franc	-0.4	+5.0	+9.9	+11.5
Sterling	+1.3	+4.6	+5.0	+4.6
Swiss franc	0	+5.8	+7.8	+16.9
Yen	-0.3	+0.1	+0.2	0.0

*Dollar at strongest levels in recent months

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INTERNATIONAL MONETARY DEVELOPMENTS: The dollar continues to weaken, primarily because international money managers believe that in the short term other currencies, particularly the German mark, are more likely to appreciate than the dollar. To the extent that the money managers act on this belief, it is a self-fulfilling prophecy.

The existence of the narrow European currency band is an inviting target for corporate and financial money managers and speculators. The relatively fixed intra-band rates provide the same opportunity for low-risk profit or avoidance of loss evident under the earlier world-wide system of fixed exchange rates, as demonstrated by the recent revaluation of the mark. Because a high proportion of liquid international assets are in dollars, speculative movements generally result in dollar sales.

The German mark is the currency favored by traders, primarily because of its remarkable performance in the last few years. Since December 1966, the mark appreciation has been extraordinary--over 60 percent. West Germany's exceptional export earnings--likely to be enhanced in the short term by the most recent appreciation--and the government's aggressive anti-inflationary program suggest to money managers and speculators that the mark will probably soon again be a candidate for revaluation.

Although the dollar may show temporary strength when traders take profits or repay dollars that they borrowed to exchange for other currencies, there is little chance for a sustained recovery in 1973. The near-term burdens on the dollar--inflation, the psychological impact of continuing domestic political uncertainty, the potential damage to the US balance of payments by agricultural export controls--clearly far outweigh in traders' minds the longer-term prospects for balance of payments improvement resulting from the already substantial dollar devaluation.

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The next pressure point in the European joint float may be the Danish crown, which has firmly entrenched itself at the bottom of the band amid rumors--officially denied--of impending devaluation. The weakness of the crown is largely due to a rising trade deficit.

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YUGOSLAVIA: President Tito's announcement that he will "intensively concentrate" on foreign policy is an attempt to reassure the Yugoslavs that he is still in charge despite recent limitations on his activities.

In his first major speech in more than two months, Tito on Wednesday warned his people "not to be surprised" that he must devote his time to foreign policy, implying that he will be less active in domestic matters. He noted that three of the four founders of the international nonaligned movement--Nehru, Nasir, and Sukarno--are dead and said that he, as the sole survivor and "main initiator" of nonalignment, has great responsibility for the movement's future.

The 81-year-old President has frequently expressed a desire to limit his role in domestic affairs, and in the fall of 1970 ordered the creation of a collective state presidency to ease his burdens. He began to withdraw from internal political discussions earlier this year and has only attended two party meetings since late April.

Although he has hosted a series of foreign dignitaries in recent months--and is due to receive several more this month--Tito is slowing down. A new protocol in Yugoslavia has relieved him of ceremonial responsibilities during state visits. Tito's subordinates--Stane Dolanc, his heir apparent in the party and Vice President Rato Dugonjic--will assume his protocol tasks.

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PHILIPPINES: A severe rice and corn shortage in two central provinces may result in serious problems for the Marcos administration. [redacted]

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[redacted] Philippine officials believe the shortage stems in part from the unwillingness of wholesale and retail dealers to sell rice at the government-imposed price ceiling. Local warehouses are empty, and there is speculation that dealers have hidden their stocks in outlying areas.

Meanwhile, the government is seeking to import at least 400,000 tons of rice to meet domestic requirements between now and November, when the next rice crop is harvested. Manila has not been able to procure rice from the US on PL-480 terms, and talks with Peking and Bangkok have not resulted in any contracts to date. Supplies are tight in China, and Thailand has not yet determined how much rice it will have available for export from its summer harvest. Manila may be forced to import wheat as a substitute, most likely from the US on commercial terms. [redacted]

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RWANDA: The National Guard seized control of the government on 4 July, claiming that it did so to head off a civil war. President Kayibanda apparently remains in office, although his future role is unclear. The cabinet and national assembly were dismissed and all political activity was suspended. A National Committee for Peace and Unity will take over administration of the government. The committee is headed by Minister of National Guard Habyarimana who led the coup.

There is no evidence to suggest that Rwanda was on the brink of civil war. The military move may have been prompted by the personal rivalries and factional disputes that have been intensifying since early 1973. Central to the factionalism within Rwanda's Hutu-dominated government is a north-south split over policy toward the country's Tutsi minority, with northerners urging strong repressive measures. Over the years, the Tutsis have assumed a commercial and intellectual importance far greater than their share of the population.

Although a northerner, Habyarimana is a long-time supporter of the President and a moderate on the Tutsi issue. However, the 3,000-member National Guard--Rwanda's army--is dominated by northerners, some of whom may take advantage of the coup to push for Tutsi repression. This group would like to retaliate for the events of last summer when the Tutsi-dominated government in neighboring Burundi purged its Hutu majority, killing as many as 200,000.

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WEST GERMANY: Orders placed with investment goods industries in May rose 17 percent above the April level, a much larger increase than is usually registered during that month. This probably will maintain the rapid pace of economic activity and postpone the effects of the government's anti-inflationary program. The high level of new orders reflects heavy buying prior to the imposition of an 11-percent investment tax on 9 May. It is unlikely that the new tax will dampen activity in this very expansionary sector in the short run.

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